

THE ROLE OF INTERNAL CONTROL ON ORGANIZATIONAL  
CASH MANAGEMENT

A CASE STUDY OF MULAGO NATIONAL REFERRAL  
HOSPITAL, KAMPALA UGANDA.

BY

TIBEYALIRWA BERNARD

BBA/32801/102/DU


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### DECLARATION


I **TIBEYALIRWA BERNARD** do here by declare that this dissertation on "the role of internal control on organisational cash management -case study of Mulago National Referral Hospital – Kampala Uganda" has been purely my own work and has never been submitted by any body for the award of Diploma or degree in any University or institution of higher learning.

The Literature and citation from other scholars work have been fully referred to and aknowledged in the text and bibliography.

Signature :   
Name : **TIBEYALIRWA BERNARD**  
Reg No : **BBA/32801/102/DU**  
Date : **18<sup>th</sup> / 06 / 2013**

## APPROVAL

This research dissertation by **TIBEYALIRWA BENARD** which has been carried out on "**the role of internal control on organisational cash management -case study of Mulago National Referral Hospital – Kampala Uganda**" was under my supervision and the dissertation has been submitted to the College of Economics and Management for examination with my approval.

Signature of Supervisor :   
Name of supervisor : **MR. OWINO SAMSON**  
Date : **15<sup>th</sup> / 06 / 2013**

## **DEDICATION**

I dedicate this dissertation to my parents, brothers, sisters & best friend  
Mr. Owor Valentine.

### **ACKNOWLEDGEMENTS**

I thank God almighty for giving me all the necessary strength, knowledge, wisdom, financial and moral ability to complete my research report.

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## **LIST OF ABBREVIATIONS & ACRONYMS**

ACCA	-	Association of Certified Chartered Accountants
AICPA	-	American Institute of Certified Public Accountants
BOU	-	Bank of Uganda
CAG	-	Controller & Auditor General
CPA (U)	-	Certified Public Accountant of Uganda
ED	-	Executive Director
GAAP	-	Generally Accepted Accounting Principles
IT	-	Information Technology
MNRH	-	Mulago National Referral Hospital

## **ABSTRACT**

This research report is about "The role of internal control on organizational cash management", a Case Study of Mulago National Referral hospital- Uganda.

The research was conducted within the course of 60 days, during which much of my attention was focused on studying the procedures and technicalities of understanding treatment and handling of cash.

The introductory part, describes an overview of cash and the background of Mulago hospital, the statement of the problem, research objectives, research questions, Scope of the study, significance of the study and the conceptual frame work which describes the relationship between the two variables.

Chapter two has an overview of the related literature review on the internal control on organizational cash management. It expresses the features of effective internal control systems, internal control over cash, objectives of internal control over cash, petty cash fund and payments and limitation of internal control and expresses the methodology used to collect data.

Chapter four gives an overview on how collected data or findings were analyzed and presented. The information collected from the respondents

through questionnaires and interview guide questions were used in order to answer the objectives of the study.

The last chapter contains the summary of the findings, conclusions and recommendation. Various findings have been obtained from chapter four, where clear and satisfactory conclusion and recommendation have been made on the basis of the research objective stipulated in chapter one.

## **CHAPTER ONE: Introduction**

Cash is the most liquid asset that can be easily misappropriated if adequate controls are not in place. Experience shows that if cash is not carefully handled and controlled, the possibility of its misuse is very high. Where the system of checking and controlling are not in place or the procedures do not constitute satisfactory control, then the following are the manipulations which are likely to crop up in the organization.

- Alteration may be made in cash vouchers to increase the amount as the voucher's presented to support the reimbursement statement.
- Increasing amount of cash on supporting documents after they have been approved for payments.
- Duplication of the payments through petty cash fund, payroll or cheque payments. This may be done by entering the paid up voucher twice on one reimbursement claim.
- Overstatement of totals per cash reimbursement claim.

The above mentioned problems normally lead to collapse of organizations since most of the time employees are thinking of how to use the privileges and opportunities they have in the system to defraud the organization.

In this study, the role played by the employees and management in the management and control of cash of the organization will be examined. Therefore those areas of weaknesses will be identified, hence strong measures, suggestions and a means of rectifying the weaknesses will be recommended to strengthen the system of internal control on organizational cash management. Therefore in obtaining the maximum

effective and efficient internal control system of organizations cash management is not to reduce or eliminate the chances of fraudulent and improper conduct.

### **1.1 Background to the Study**

Mulago National Referral Hospital (MNRH) is the largest hospital in Uganda. It was established to provide autonomous primary, secondary and tertiary care for preventive and curative health services as well as being a role model for efficient hospital management gearing at self discipline and sustainability.

Mulago National Referral Hospital is headed by the Executive Director (ED) assisted by other seven directors who include Director of Finance & Planning, Director of Human Resource, Director of IT & Information, Director of Clinical Services, Director of Clinical Support Services, Director of Technical Services and Director of Nursing Services & Quality.

Below the departmental directors there are departmental managers who include chief accountant and chief supplies officer specifically under the Director of Finance & Planning.

Mulago National Referral Hospital just like any other organization is facing a risk of fraudulent activities which are likely to lower its performance and jeopardize the achievement of its goals. Therefore there is need to establish a good internal control system on cash management to mitigate these risks.

### **1.2 Statement of the problem**

Overtime; it was observed that organizations such as hospitals were frequently facing fraudulent activities because of poor internal control on its cash management. Hospitals are not operated for profit purpose

which reduces the ability of profit maximization. Hence, there is need to investigate the role of internal control on cash.

### **1.3 Purpose of the study**

The purpose of the study was to examine the relationship between internal control and cash management.

### **1.4 Objectives of the study**

- 1) To examine the role of internal control on organizational cash management and its contribution to the reduction of fraud & embezzlement.
- 2) To identify the factors that might have led to inefficiency and ineffectiveness of the internal control system and
- 3) To identify and recommend the corrective measures to be taken to ensure strong and satisfactory management of cash.

### **1.5.O Research questions**

- I. What role did internal control system contribute in reduction of frauds & embezzlement, poor services and errors at the organization?
- II. What factors contributed to inefficiency and ineffectiveness of internal control system in use?
- III. What recommendations and corrective measures were suggested to ensure strong and satisfactory management of cash?



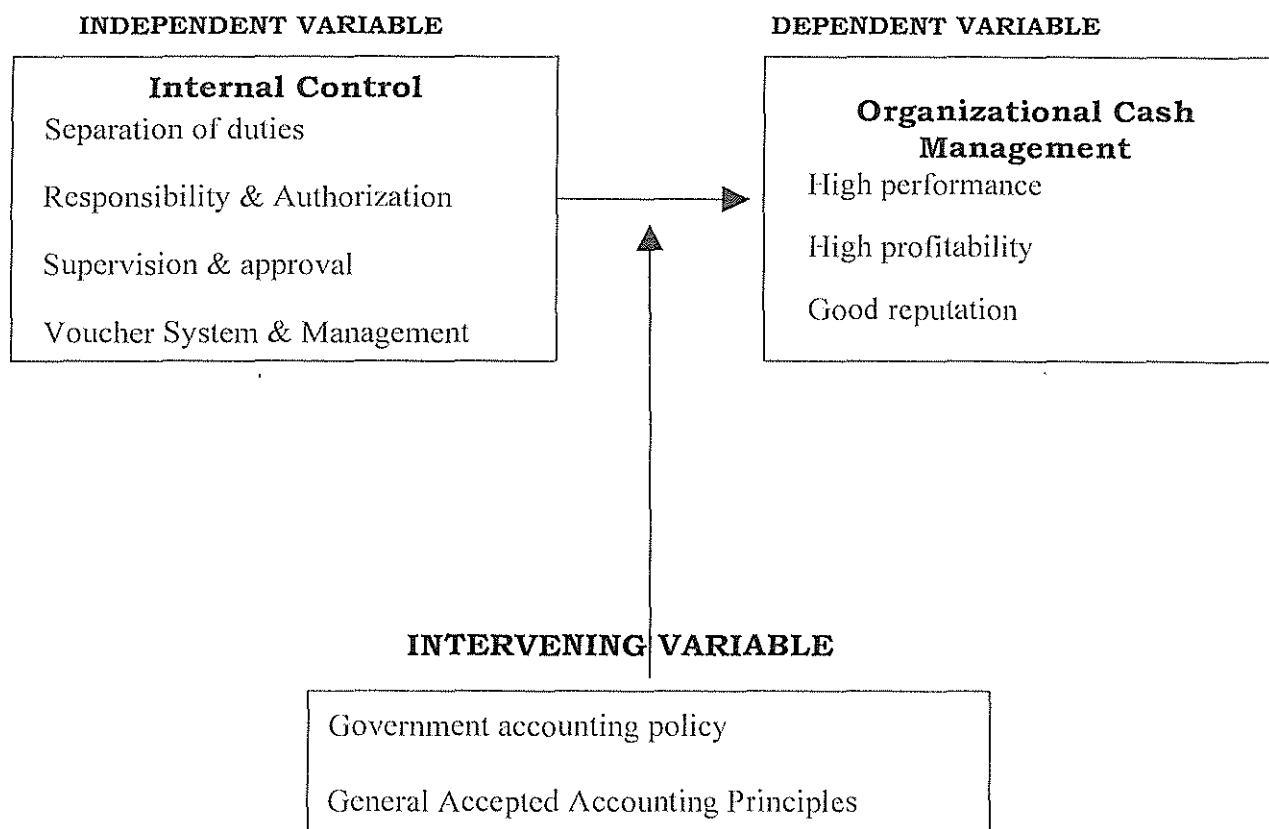
## **16.0 Scope of the Study**

**16.1 Geographic Area.** The study was conducted at Mulago National Referral Hospital under the department of Finance and planning in the office of chief accountant.

**1.6.2 Subject Matter.** The study focused on the role of internal control on organizational cash management. Where appropriate and satisfactory internal controls were identified and put in use.

**1.6.3 Time Bound.** A period of four years (4 years) was considered that is to say from 2004 to 2007. Therefore what was discussed was in this range of duration.

## 1.7 Conceptual frame work



### Conceptual Framework Implication:

Internal control is the independent variable which relies on separation of duties, line of responsibility and authorization, supervision and approval and the use of voucher system. If these are put into action with the aid of government accounting policy and General Accepted Accounting Principles which are intervening variable then the organization cash will be secure which in turn will lead to high performance, high profit and good reputation while eliminating the possibility of fraudulent activities, embezzlement, improper conduct and errors at the organization.

### **1.8 Significance of the study**

The following were the importance of the research. It should be noted that the importance were subjected to three categories of beneficiaries who included the researcher himself, Mulago National Referral Hospital as institution and third parties.

- The research provided a basis for the creation of an efficient and effective system of internal control on cash that assisted management to obtain information, exercise protection and control fraud in Mulago National Referral Hospital.
- This research provided the new measures which can be adopted by the organization and lead to efficient progress in attaining the highest accuracy in maintaining accounting records of cash flows and avoiding wastage of resources.
- To the academician, it has enabled the researcher to acquire more knowledge about internal control on cash management and its contribution on reduction of errors and frauds.
- To the decision makers, the research was useful tool for formulating the policies that lead to proper internal control on organizational cash management.
- It enabled the researcher to be awarded bachelor's degree in business administration.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter considered the ideas of many writers since the topic of internal control on organizational cash management was covered broadly. This part incorporated the ideas drawn from books, journals, job descriptions, internet based information and accounting manuals in dealing with internal control.

#### **2.1. Internal control overview**

In accounting and organizational theory, Internal control is defined as a process, effected by an organization's people and information technology (IT) systems, designed to help the organization accomplish specific goals or objectives. It is a means by which an organization's resources are directed, monitored, and measured. It plays an important role in preventing and detecting fraud and protecting the organization's resources, both physical (e.g., machinery and property) and intangible (e.g., reputation or intellectual property such as trademarks). At the organizational level, internal control objectives relate to the reliability of financial reporting, timely feedback on the achievement of operational or strategic goals, and compliance with laws and regulations. At the specific transaction level, internal control refers to the actions taken to achieve a specific objective (e.g., how to ensure the organization's payments to third parties are for valid services rendered.) Internal control procedures reduce process variation, leading to more predictable outcomes. [www.freeencyclopedia.org/auditing](http://www.freeencyclopedia.org/auditing) (2010).

Internal control has been defined by the **American Institute of Certified Public Accountants (AICPA)** as 'the system comprising the plan of organization and all of the co-ordinate methods and measures adopted in a business to safeguard its asset, check the accuracy and reliability of accounting data, promote operation efficiency and encourage adherence to prescribed managerial policies.'

Internal control has also defined by **Wolf (1985)** as 'the whole system of controls financial and otherwise, established by management in order to carry on the business of an enterprise in an orderly and efficient manner, to ensure adherence to management policies safeguard the assets and secure as far as possible the completeness and accuracy of records.'

Both definitions (**AICPA** and that of **Wolf**) are focused on the same three points as namely here under:-

- i. Safeguard of the assets from waste, fraud or theft
- ii. To have sound management which adhere to its policies
- iii. To increase operational efficiency of an organization

Internal control can be categorized into two groups; administrative control and accounting control;

Administrative control is a plan of an organization and other methods and procedures aimed at operational efficiency and compliance with prescribed management policies. This includes employees training programmes, performance report etc.

Accounting control is a plan of an organization regulations and procedures established in order to control financial matters, records or the safeguarding of organizational assets **Mahushi (1985)**.

## **2.2. Features of the effective internal control**

**Meigs (1981), Wolf (1979) and Prof. P. Manasseh (2007)** define internal control characteristics as here under:-

### **a. Separation or segregation of duties**

This control means the separation of duties and responsibility which if combined will enable one single person to process and records a transaction from the beginning to the end without being checked which will expose such a person to instances of frauds. That is to say that a person is never given exclusive powers which cannot be checked at any stage. Thus segregation of duties minimize the risk of intentional manipulation and boosts the element of inter checking. The following function should be segregated:-

#### **i. Authorization**

This should be segregated such that different line managers are accorded various limits of authority which will depend upon such factors as their position, integrity, qualification competence and remuneration.

#### **ii. Execution**

Limits of authority will be accorded to an individual different from the one who authorize the execution of that act. Example if an officer authorizes a given expenditure, a different person will execute or carry out such expenditure

#### **iii. Custody of assets**

There should be a segregation of duties between execution, authority and custody of assets such that an official authorizing a given expenditure does not keep the assets arising out of such expenditure.

#### **iv. Recording**

This should be segregated such that a person with sufficient knowledge and experience is accorded powers to records certain transactions. For sensitive assets such should be recorded by responsible person who cannot change or delete.

#### **b. Responsibility**

The gurus mentioned earlier have suggested that every organization should have plans, which are defining the allocating responsibilities and identifying lines of reporting for all aspects of the entity, operation including the controls. The authority and the power to delegate authority should be defined clearly.

Therefore all organization must indicate clearly the department and the person responsible for such function such as ordering purchasing, maintaining accounting records approving other financial transaction like payroll and advances to employees.

#### **c. Authorization and Approval**

All transaction should require proper authorization and approval by an appropriate and responsible person. There should be a clearly defined system of authorization and approval to provide the reasonable control of accounting for assets, liabilities, expenses and revenue. Through proper authorization it is not simple to initiate a direct fraud and in case it happens the one responsible can be made liable and accountable for any resulting loss of cash.

#### **d. Arithmetical and Accounting**

These are the control within the records functions which check that the transaction to be recorded and processed have been authorized, that they are all included, correctly recorded and accurately processed. Such control includes checking the arithmetical accuracy of the record,

maintenance and checking of totals, reconciliation control accounts and trial balances and accounting of documents.

#### **e. Supervision**

Any system of internal control in any organization should incorporate the supervision by the responsible officials of the day to day transactions and the recording of those transactions. Failure to exercise either examination or supervision tends to weaken the foundation of internal control, thus creates the loophole for fake payments which in turn causes the loss of the organization cash. Three level of control may be identified from supervision:-

##### **i. Low level supervision**

Such supervision should be managed by trained and competent supervisors who should supervise the company day to day operation such that they work smoothly. Such supervisor should motivate employees so as to boost their morale to work and by doing so prevent perpetration of frauds.

##### **ii. Middle level supervision**

This type of supervision is done by line manager who should ensure that policies and procedures are adhered to and are in line with the company's objectives and goals. This supervision if properly implemented will boost the lower levels of supervision and accountability.

##### **iii. Managerial supervision and reviews**

This is management control done by the top management using such tools as budget, forecasts, standard costing statements, internal audit feedbacks. All of which are aimed at checking the daily running of an organization.



#### **f. voucher System**

A voucher is one of the methods of achieving strong internal control over cash disbursement. It provides assurance that all disbursement are authorized and reviewed before a cheque is issued. The accounting department is responsible for assembling the appropriate documentation to support every cash disbursement.

#### **g. Personnel**

There should be procedures to ensure that personnel have capabilities commensurate to their responsibilities, the power functioning of any system depends on the competence and integrity of those operating it. The qualification, selections and training as well as innate personal characteristics of the personnel involved are important features to be considered in setting up a control system.

#### **h. Physical control**

These are controls which aim at limiting accessibility of the company's assets to authorized persons at authorized time. These control will take the form of physical measures which are also aimed at limiting direct access to assets using physical barriers or indirect. The controls are important to the following asset; valuable assets such as cash and stock, exchangable assets and desirable assets such as cash.

#### **i. Rotation of duties and vacation**

Duties in particular routine must be rotated to avoid continuity of errors and frauds and also as a means of avoiding routine boredom which may lead to innocent errors. At the same time Personnel should encouraged taking leaves as at when it falls due so as to: boost the morale of the employees, minimizing chances of errors and frauds and test the efficiency of personnel on leave.

#### **j. Routine and automatic checks**

These are also control conducted on routine duties and operations to ensure that these are operating efficiently. Such controls are operated on a surprise basis to minimize errors and frauds and thus boost efficiency and morale to work. These are ideal for such assets as petty cash, wages payment stock control, reporting procedures and other routine but sensitive duties.

#### **2.3. Internal controls over cash**

**Meigs (1990)** and **Atwood F. A. (1986)** both defined cash as the most liquid asset that offers the greatest temptation for theft and misappropriations. These gurus proposed the following ways in order to control cash management efficiently and effectively.

- Separation of the function of handling cash from the maintenance of accounting records.
- Preparation of control by the listing of cash receipt at the time and place received.
- All the cash receipt should be deposited directly to the bank make all the payment by cheque or bank account. The only exception being for small payment to be made in cash (petty cash disbursement).
- A list of cheque should be prepared and taken to the bank before the cheques are presented to the bank.
- The validity and amount of each spending must be verified before a cheque is issued.
- Separating the function of signing the cheques from the function of approving the expenditure.

- Cancelled cheques must be recorded serially.
- The cashier who is responsible for receiving cash is not responsible for cash payments.
- Require no work or alteration of any kind to be carried out on the safe except with the permission of the responsible official.
- Small safes and strong boxes used as the safes must be built into the structure of the building in which they are housed.
- The key of the safe shall not be kept by the person who is not the official key holder and the safe shall not be opened except by the employee (s) responsible for it.
- No responsible individual should open the custody alone, three consecutive keys held by different employees is advised to be used as a way of opening the safe custody.

Some other means of controlling cash have been pointed out by **Hoof E. (1990)** as follows:-

#### **I. Serial number of documents**

Internal control device of wide applicability is the use of serial numbered documents. Serial numbers provide control over the number of documents issued. Such documents are cheques, tickets, payment vouchers, purchase order and many other business papers can be controlled in the manner of the serial number. For every number of the series by a monthly or weekly inspection of documents issued should be made.

## **II. Voucher system**

According to **Meigs & Meigs (1981)**, voucher system is one among the most satisfactory means of achieving a strong internal control over the organizational cash. By providing assurance that all disbursements are properly authorized and reviewed before the cheque is issued. In typical voucher system the accounting department is responsible for assembling the appropriate documentation to support every cash disbursement.

### **2.4 The role of internal control system on cash management**

Internal control plays an important role in improving the organizational cash management. The following below explain how frauds and errors of the organization can be minimized or eliminated by the using appropriate and satisfactory features of internal control as follows:-

#### **1. Plan of an organization**

This can be achieved by defining the powers which will boost accountability and responsibility, defining duties and responsibilities, prevents duplication of efforts which are inherent, defined authorities and responsibility to reduce conflict and prevent misuse of power.

#### **2. Segregation of duties**

This is attained by separating different powers of execution and authorization, dividing duties between execution and authorization, encourage inter checking of personnel by or with personnel and internal manipulation reduction, this prevents fraud.

### **3. Authorization and approval**

The transactions are authorized by responsible officials whose chances of perpetrating frauds are minimal, it separate or dilutes chances of persons perpetrating frauds, well defined system of approval where one does not authorize a transaction beyond his power and authorization goes with the position or remuneration serving to prevent frauds.

### **4. Physical control**

This is attained by using direct limitation to company assets such as cash, indirect limitation by using documents such as petty cash vouchers, serialization of assets and allocation of assets to responsible officials at designed times, all these helps to prevent frauds.

### **5. Arithmetical and accounting**

This is done through proper checking of the records, use of automatic accounts machines such as computers and cash register, periodic balancing of accounts, periodic reconciliation of accounts and casting of figures all serves to prevent frauds.

### **6. Personnel and supervision**

Use of competent personnel with high integrity, properly remunerated personnel, enhances the sense of responsibility and use of budget or forecast all of this may serve as a tool to prevent frauds.

### **7. Rotation of duties and vacation.**

No fraud occurs as efficiency is enhanced due to rotation of duties, chances of collusion in clerical duties are reduced and rotation reduces monotony thus preventing careless errors.

## **8. Routine and automatic checks.**

Conducting a surprise check on regular basis, enhances responsibility and accountability thus prevents frauds, efficiency is enhanced minimizing chances of frauds, morale of employees is boosted as they are aware of routine checks, cuts continuity of frauds and safeguards against losses of assets.

### **2.5. Objectives of internal control over cash**

According to **P. H. Mahushi (1985)**, the following are the objectives of internal control over cash:-

- That there is incident accountability for all cash received.
- That payment is made on the basis of proper documentary authority for the benefit of the firm and such authority is limited to few known and eligible personnel.
- That there is a good cash management to avoid frequent cash shortage or holding excessive cash in hand.
- That there is properly secure of cash in hand against theft, misappropriation or embezzlement.

From the above explanation one would identify and conclude that internal control, targets at protecting all assets, but cash is the most important for this case, since cash is very much exposed to manipulation and temptation.

### **2.6. The petty cash fund and payment**

According to **Larson / Pyle (1988)** a basic principle in controlling cash disbursement is that, all such disbursement be made by cheques. However, an exception to this rule for petty cash disbursements every business must make many small payments for item such as postages,

express charges, telegrams and small items of suppliers. If such payment is made by cheque, many cheques for immaterial amounts are to be written. This is both time consuming and expensive. Therefore to avoid writing cheques for small amounts a petty cash fund is established and such payments are made from this fund (petty cash fund).

For cash control purposes, when a petty cash fund is established, an estimate is made of total small payments likely to be disbursed during the short period usually a month. A cheque is drawn and debited to the petty cash account for an amount slightly in excess of this estimate. The cheque is cashed and money is given to petty cashier.

Petty cashier normally keeps the petty cash in a locked custody in the office safe. When a disbursement is made, a petty receipt is signed by the person receiving payment and is placed with the remaining money in the petty cash custody. Under this system the safe custody should always contain paid petty cash receipt and money equal to the amount of fund deposited in the petty cash account and being cashed.

## **2.7. Limitation of internal control**

Internal control system, however elaborate can by itself neither guarantee efficiency in administration and completeness and accuracy of the records. It can not also be proof against fraudulent collusion especially on the part of those holding position of authority or trust. Internal control which relies on separation of duties can be undermined by collusion **Mahushi (1985)**.

The person whom the authority is rested can abuse authorization controls. Management is always in a position to override controls which it has set them up itself.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0. Introduction**

This part of the research dissertation focused on the way the study was conducted. It gives detailed explanations of the methods of data collection and analysis. It also explains the research design, area of the study and research instruments.

#### **3.1. The Research Design**

The research design was a case study of Mulago Hospital.

The research design was both qualitative and quantitative; this was because both designs gave a researcher a clear picture of the role of internal control over organization cash. Hence, the researcher identified the essence of internal control on organization cash management.

#### **III.2. Population of the study**

Mulago Hospital has a population of 1,824 employees. Of these, there are 824 females and 1,000 males.

The population comprised of individual workers in the department of finance and planning of Mulago National Referral Hospital. This was the maximum number of employees the researcher considered.

#### **3.3 Sampling Design**

The researcher used random sampling method to obtain relevant data. A maximum total of 20 employees were selected as a sample from the total population of 1824. From this method the researcher selected a total number of 20 employees at random without informing them and collected the research data required.



### **3.4. Sample size**

A sample is a small proportion of a target population selected for comprehensive analysis to represent the whole population. Mulago hospital has a total population of 1,824 people and (20) twenty respondents; that is to say;-ten (10) Mulago hospital administrative staff, five (5) nurses and five (5) doctors were selected to represent the total population.

### **3.5 Sources of Data**

The researcher employed both Primary and Secondary sources of data in the research study.

- **Primary Sources.** The primary sources of data included questionnaire respondents, interviewees and observation.
- **Secondary Sources.** Sources of data under this included text books, journals and published materials, studying manuals, Internet and information from internal sources such as accounting policies.

### **3.6. Methods for Data Collection**

The following were the instruments which were employed by the researcher as a means to collect data; these included; Interviews, Questionnaires, Observation and Focus group discussion.

#### **3.6.1. Questionnaires**

The researcher used pre-formulated written set of questions where the respondents recorded their answers. It was an efficient data collection mechanism where the researcher knew exactly what was required and how to measure the variables of interest. Open ended and closed ended questions were used. For this case study, the questionnaires were self-

administered to the targeted respondents, this was preferred because it saved time and the data collected can be stored for future needs.

### **3.6.2. Interview**

An interview guide was used especially with vital officer and employees in department of Finance and Planning. This was because interviews were flexible, clear and appropriate in making the researcher formulate questions on the bases of respondents' answers, also the method was used to solicit information, views and opinions from the respondents so as to obtain more findings due to their gestures, and facial expressions.

### **3.6.3. Observation**

The researcher employed observation as a data collection method because it was possible to gather data without asking questions but just by observing people in their natural work environment and recording their status. The researcher collected data as participant observer. As a participant observer, the researcher collected data in the role of pure research without trying to become an integral part of an organization.

### **3.6.4. Focus Group Discussion**

The researcher used focus group discussion in collecting some of the information. A focus group was preferred and it composed of five individuals who shared certain characteristics which was relevant for the study. The researcher joined and interacted with the group while recording the necessary information relevant to the study.

### **3.7 Data Analysis and Presentation**

This section dealt with the organization, interpretation and presentation of the collected data. The researcher used data analysis to examine what was collected in the survey and making deductions and inferences. The data collected was analyzed using qualitative techniques where simple quantitative techniques such as frequency distribution tables, histograms and pie chart were used for presenting the findings.

### **3.8 Ethical consideration**

Before going to the field, the researcher began with getting authorization letter from the Dean of faculty of Business and Management then took it to the respondents and this enabled the researcher attain adequate information from the respondents. During the process of data collection, confirmation was given to the respondents in that the researcher assured the respondents that the reason for the research was for only academic purpose and that no information would be disclosed.

### **3.9. Limitations of the study.**

The researcher finished the research successfully however, he faced the following challenges in the course of the study;

The time given to the researcher to complete research was too short since the maximum time for completing research report was only two months which did not give room for detailed study about the role of internal controls on organizational cash management.

The researcher being a student faced the problem of financial constraints since lot of money was needed to pay for stationery, transport expenses, typing and photocopying and other costs related to the research.

Some respondents feared to disclose off some information which was crucial to the researcher since they were considered classified since they were secrets of the organization thinking that the information was going to be used for other purposes other than academic.

Unwillingness of the respondents to effectively respond to the questions was one of the most notable problems that the researcher faced while conducting the research. However, the researcher overcame this problem by convincing the respondents to get involved in the study.

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## CHAPTER FOUR

### PRESENTATION, INTERPRETATION AND ANALYSIS OF THE FINDINGS

#### 4.0. Introduction

This chapter presented the findings in relation to the research questions and research objectives established earlier. The chapter presents the findings by considering the research purpose which was to establish the role of internal control on organization cash management.

The data collected from the field was processed and analyzed, qualitatively and quantitatively. The qualitative approach used in analysis provided more clarification and explanations on quantitative data. Quantitative information summarized by using tables and percentages to show the response of the respondents. All of these findings were interpreted and presented, through re-examining research objectives.

#### 4.1. Demographic characteristic

The main purpose of this part was to analyze the background information of the respondents in relation to their age, gender (sex), marital status and level of education. The information was presented by the use of tabulation.

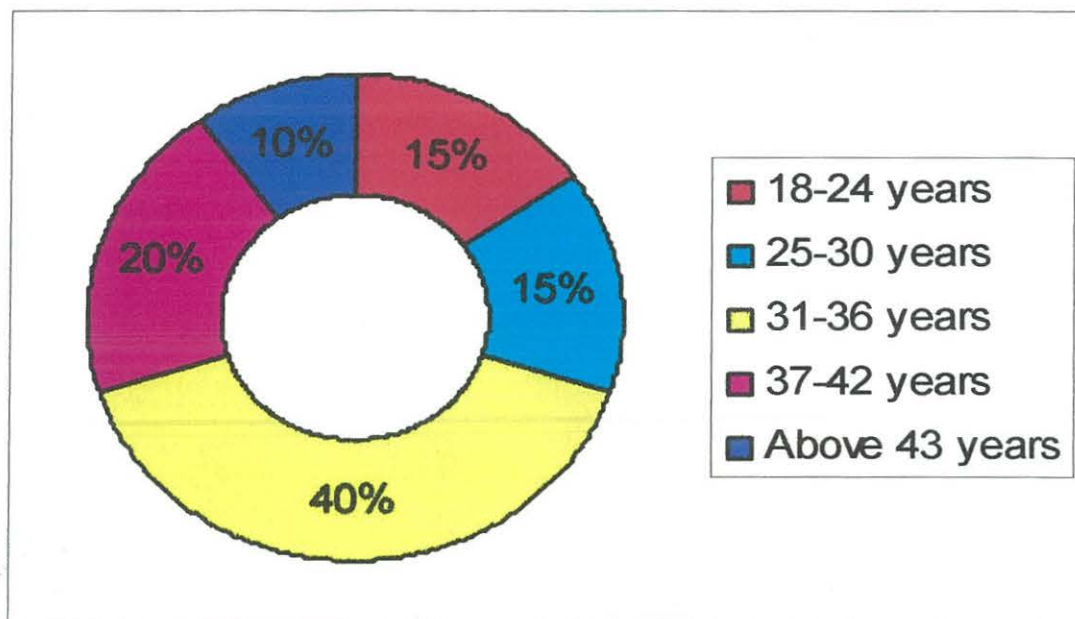
##### 4.1.1 Age of the respondents

**Table 1 shows the age of the respondents**

Age (years)	18 - 24	25 - 30	31 - 36	37 - 42	Above 43	Total
Frequency	3	3	8	4	2	20
Percentage (%)	15	15	40	20	10	100

**Source: Primary Data**

**Fig I shows the age of the respondents**



**Source: Primary data**

According to table 1 and Figure 1 above, the data revealed that the majority of the respondents were aged between 31 years to 36 years, who made the total of 40% of the respondents. Other age groups individually comprised of 15%, 20% and 10% who in total made a total of 60%.

#### **4.1.2 Gender of the respondents**

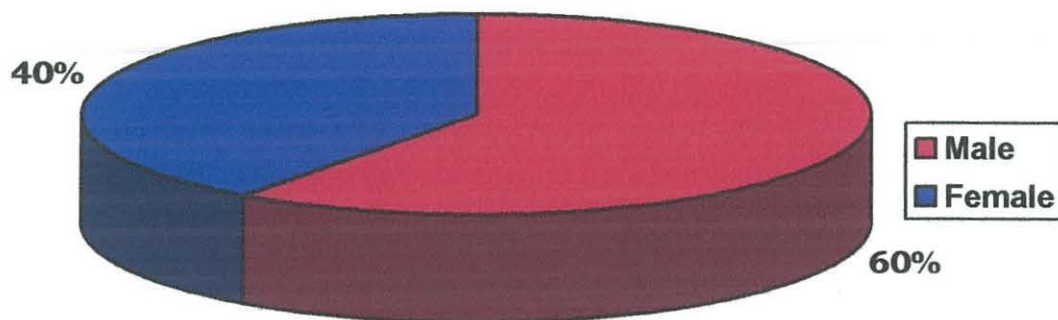
**Table 2 shows the gender of the respondents**

Gender	Male	Female	Total
Frequency	12	8	20
Percentage (%)	60	40	100

**Source: Primary data**

Table 2 shows the gender ratio of the respondents. The table reveals that out of 20 respondents who were randomly selected to answer the questionnaires, 12 of them were males and 8 of them were females. This means that on this basis, 60% of the respondents on the questionnaires were males while 40% of the respondents were females.

**Fig 2 is the pie chart showing the percentage Gender of respondents**



***Source: primary data***

The pie chart above reveals that out of 100% respondents who were randomly selected to answer the questionnaires, 60% of them were males and 40% of them were females. This means that on this basis, 60% of the respondents on the questionnaires were males while 40% of the respondents were females.

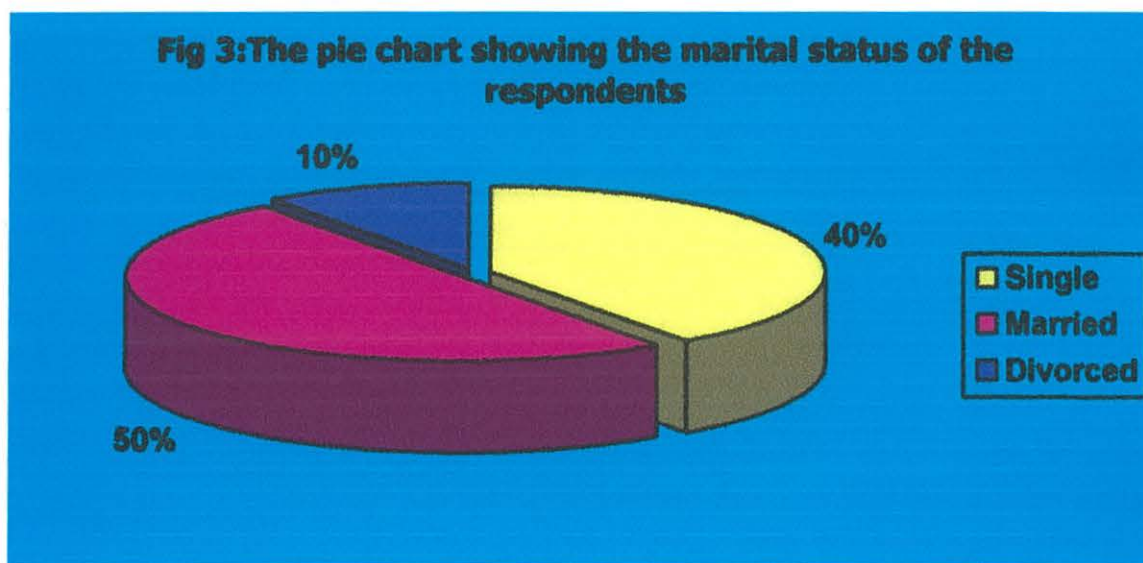
#### 4.1.3 Marital status of the respondents

*Table 3 shows the marital status of the respondents*

Marital status	Single	Married	Divorced	Total
Frequency	8	10	2	20
Percentage (%)	40	50	10	100

*Source: primary data*

The table above reveals the marital status of the respondents of the questionnaires. Out of twenty respondents, eight (8) were single, ten (10) were married and two (2) were divorced. In terms of percentage, the respondents may be represented by 40%, 50% and 10% respectively.



*Source: primary data*

The pie chart above shows the marital status of the respondents of the questionnaires. Out of twenty respondents, eight (8) were single, ten (10)



were married and two (2) were divorced. In terms of percentage, the respondents are represented by 40%, 50% and 10% respectively

#### 4.1.4 Levels of education of the respondents

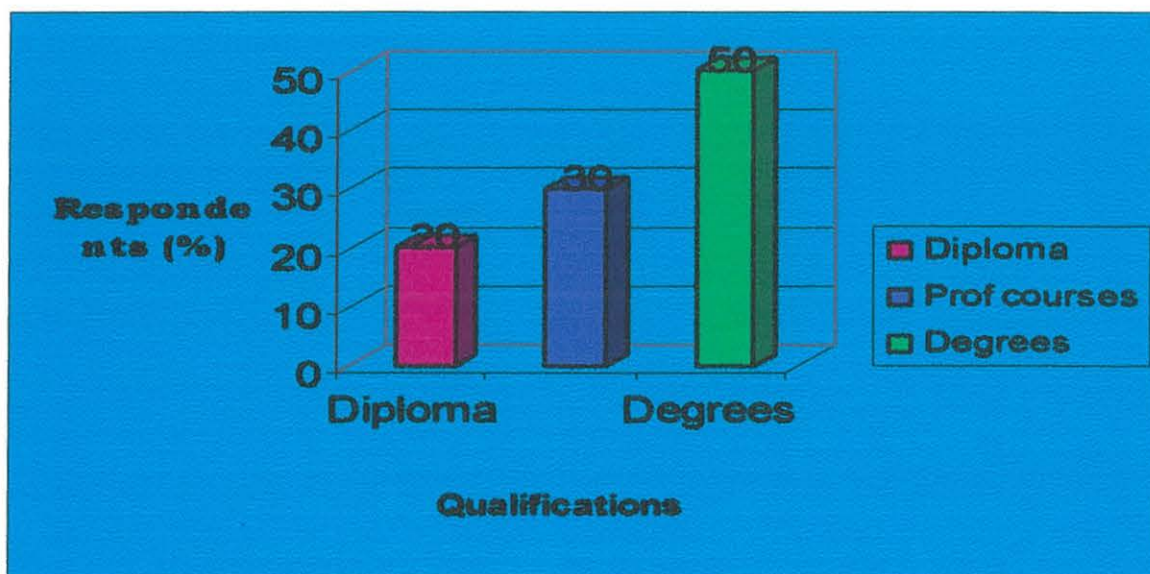
**Table 4 shows the level of education of the respondents**

<b>Education Level</b>	Diploma	Professional course	Bachelor in A/c field	Total
<b>Frequency</b>	4	6	10	20
<b>Percentage</b>	20%	30%	50%	100%

**Source: Primary data**

The above table describes the qualification of the respondents from whom the researcher gathered the information needed. Of these respondents, 20% posses diploma course certificate, 30% posses professional course of CPA (U) and 50% posses bachelor's degree in Accounting and Finance.

**Fig 4 shows the education levels of the respondents**



**Source: primary data**

The above pie chart shows the qualification of the respondents from whom the researcher gathered the information needed. Of these respondents, 20% posses diploma course certificac, 30% posses professional course of CPA (U) and 50% posses bachelor's degree in Accounting and Finance.

#### **4.2 Relationship between internal control and organization cash management**

Explanatory studies were used to establish the relationship between internal control and organization cash management. Different variables that may influence either way organizational cash management were thoroughly measured. It was observed that, there was a significant relationship between internal control and organization cash management. The findings pertained to the objectives and were presented and interpreted as shown hereunder:-

#### **4.3 Extent to which internal controls were relevant on organization cash management**

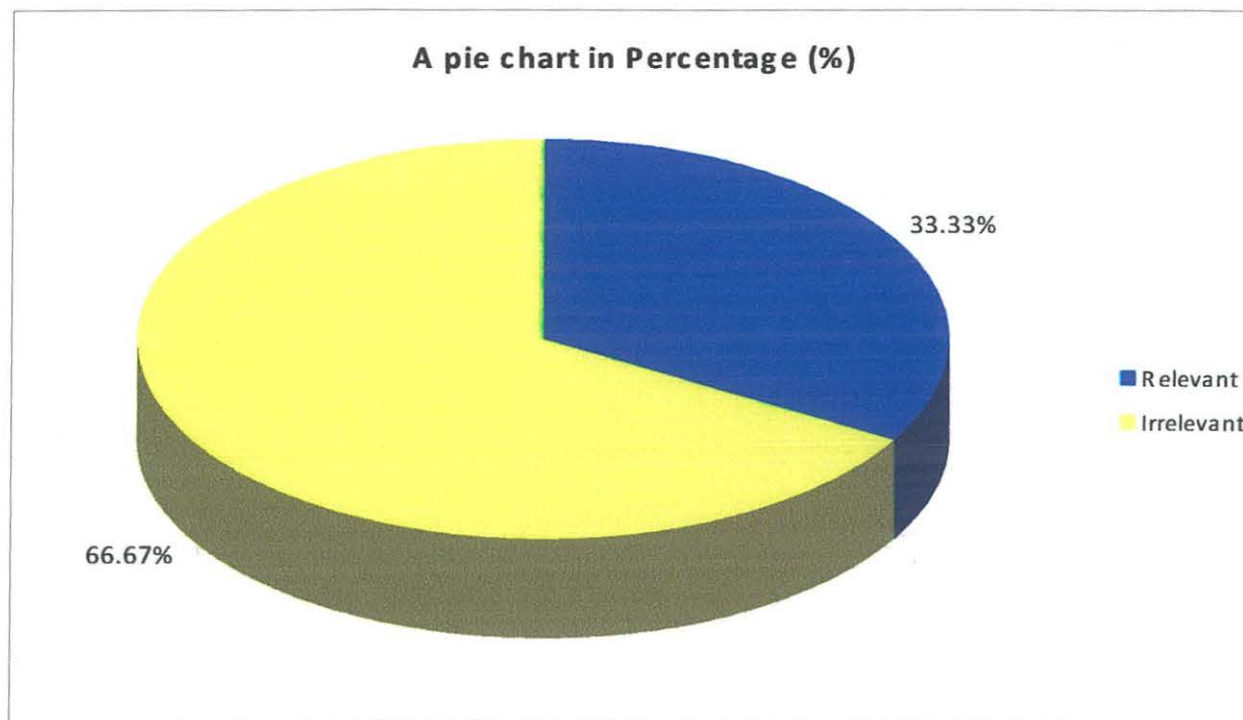
A pie chart and table were used to examine and analyze the extent to which internal control was relevant to organization cash management. The responses were summarized in the chart and table as shown below;

**Table 5 shows the extent to which internal controls were relevant to an organization cash management**

<b>Responses</b>	Relevant	Irrelevant	Total
<b>Frequency</b>	7	13	20
<b>Percentage (%)</b>	33	67	100

**Source: Primary data**

**Figure 5 shows the relevance of internal control over organization cash management**



**Source: Primary data**

While carrying out the study the respondents were asked to what extent does an internal control relevant on organizational cash management. 33.33% of the total population acknowledged that internal control was relevant on organizational cash management. They further explain that internal control which relied on separation of duties served as the means of detecting and preventing errors and frauds since the activity of one person may be used as a check up for another employee's activity.

Responding to the same question 66.67% of the respondents who are mainly diploma holders declined the relevance of the internal control system on organizational cash. They argued that, internal controls depended entirely on people who hold position of trust, the same people may abuse the trust through collusion by overriding the controls in

place. There fore they did not see the relevance of internal control which faces limitations.

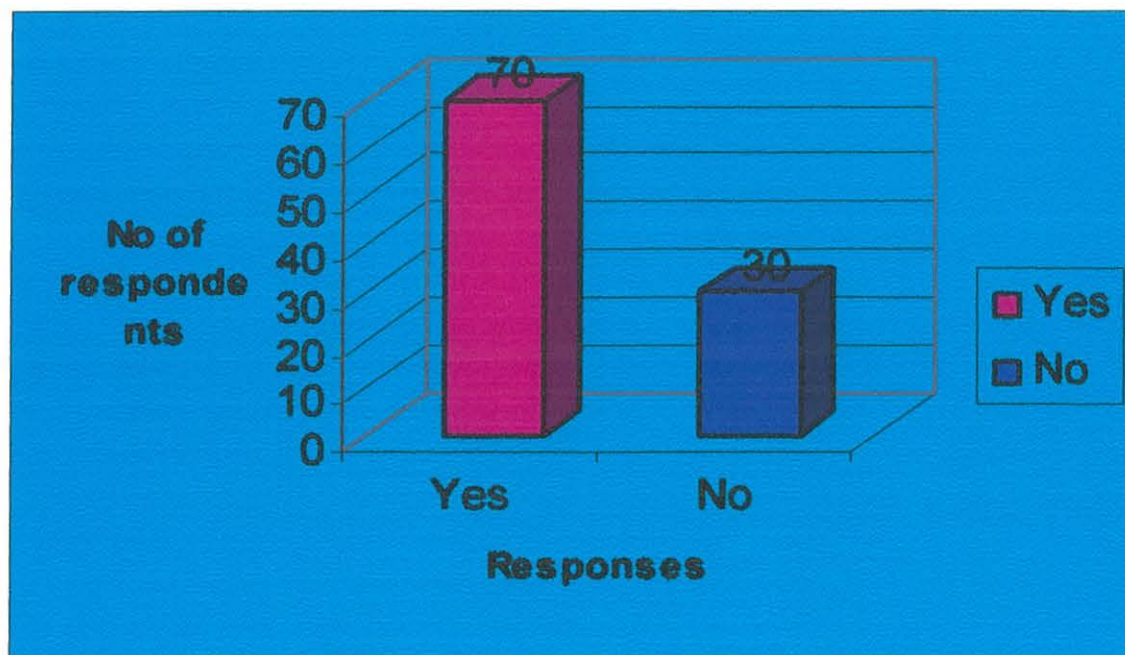
#### **4.4 Importance of internal control to performance of an organization**

***Table 6 shows how internal controls are important to performance of an organization***

Responses	Yes	No	Total
Frequency	14	6	20
Percentage (%)	70	30	100

***Source: primary data***

**Fig 6 shows how internal controls are important to Mulago Hospital**



***Source: Primary data***



Table 6 and Figure 6 above show how internal control systems are important to performance of an organization like Mulago hospital. The table reveals that out of 20 respondents, who were randomly selected to answer the questionnaires, 14 of them said internal controls are important to performance of Mulago hospital and 6 said internal controls are not important to performance of Mulago hospital. This means that on this basis, 70% of the respondents on the questionnaires said yes while 30% of the respondents said no.

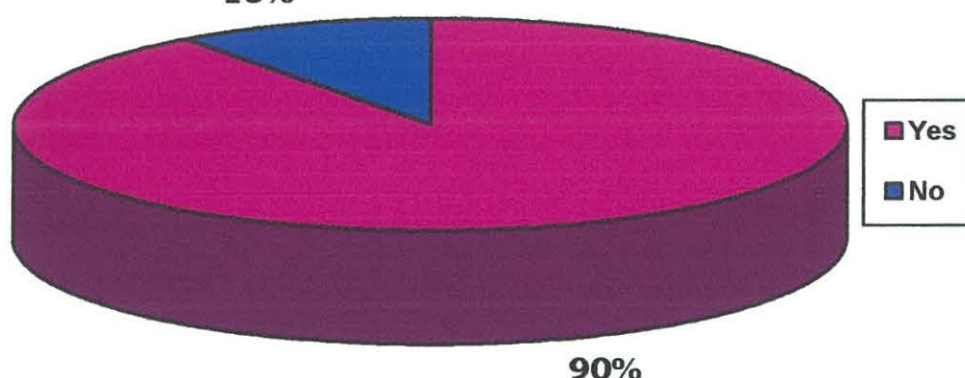
#### **4.5 Implementation of internal control process, policies and procedures**

*Table 7 shows the implementation of internal control process, policies and Procedures*

<b>Responses</b>	Yes	No	Total
<b>Frequency</b>	18	2	20
<b>Percentage (%)</b>	90	10	100

**Source: primary data**

**Fig 7 shows the implementation of internal controls process, policies and procedures**  
10%



**Source: Primary data**

Table 7 and Figure 7 above show how the hospital has implemented the internal control process, policies and procedures.

Out of twenty respondents (20), eighteen (18) respondents which made a percentage of 90% accepted and they further explained both administrative and accounting control were practiced in the organization. They enumerated a number of processes, policies and procedure followed which reflected the concept of internal control system. These processes, policies and procedures included plans of organization, separation of duties, rotation and vacation and physical controls.

#### **4.6 Other controls other than physical and security control**

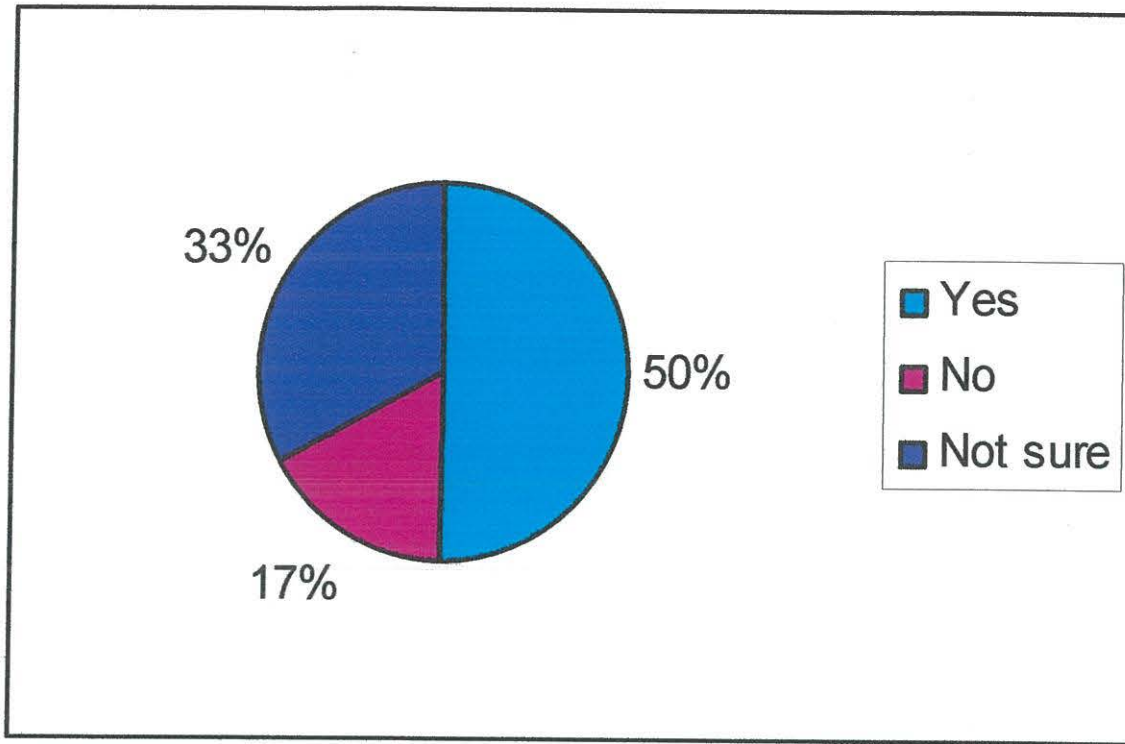
***Table 8 other controls other than physical and security control***

Apart from physical control and security on cash do you have any other system of control in authorization of cash and other disbursement?				
	Yes	No	Not sure	Total
Frequency	10	3	7	20
Percentage	50	16.667	33.333	100

***Source: primary data***

**Fig 8 shows other controls other than physical and security control**

**Fig 8 shows other controls other than physical and security control**



**Source: Primary data**

Table 8 and Figure 8 above revealed that three respondents who made a population of 50% acknowledged the above question by saying yes. The respondents went an extra mile by explaining the other system of control in authorization of cash and other disbursement such as job rotation and vacation, approval and supervision which served as administrative control.

Three respondents who made a population of 16.67% declined that there are no other system of control in place apart from physical control and security. This implied that the respondents were not aware of the other systems of control in place apart from physical and security controls.

The other seven respondents who made a population of 33.33% were not sure or aware of the other system of control in authorization of cash and

#### **4.7 How internal control is efficient and effective in controlling fraud, embezzlement and accounting errors**

***Table 9 shows how internal control is efficient and effective in controlling frauds, embezzlement and accounting errors***

Do you think that, internal control is efficient and effective in controlling fraud, embezzlement and accounting errors?				
	Yes	No	Not sure	Total
Frequency	14	-	6	20
Percentage	66.667	-	33.333	100

***Source: Primary data***

From the above table we can see that on this particular question four respondents who made a population of 66.67% concurred positively while two respondents who made a population of 33.33% were not sure of the circumstances at the same time none said no.

66.67% of the total population who acknowledged the applicability of internal control as the efficient and effective measure in controlling fraud, embezzlement and accounting error went ahead explaining that, it was through sound internal control system where the management would detect and prevents errors and frauds. They gave an example of the adoption of surprise check, bank reconciliation and separation of duties which aimed at detecting errors and frauds. Further, it was through routine check up and balancing of accounts, the use of internal auditing functions where possible and paying reasonable salaries and benefits to employees according to their qualification, experience and sensitivity of their jobs.

33.33% of the total population was not sure of the applicability of the internal control this implied that they were not literate on various aspects of controls which may have material impact on the efficient and effective running of an organization.



#### **4.8 Whether internal control process, policies and procedures are satisfactory to the organization**

***Table 10 shows whether internal control process, policies and procedures are satisfactory to the organization***

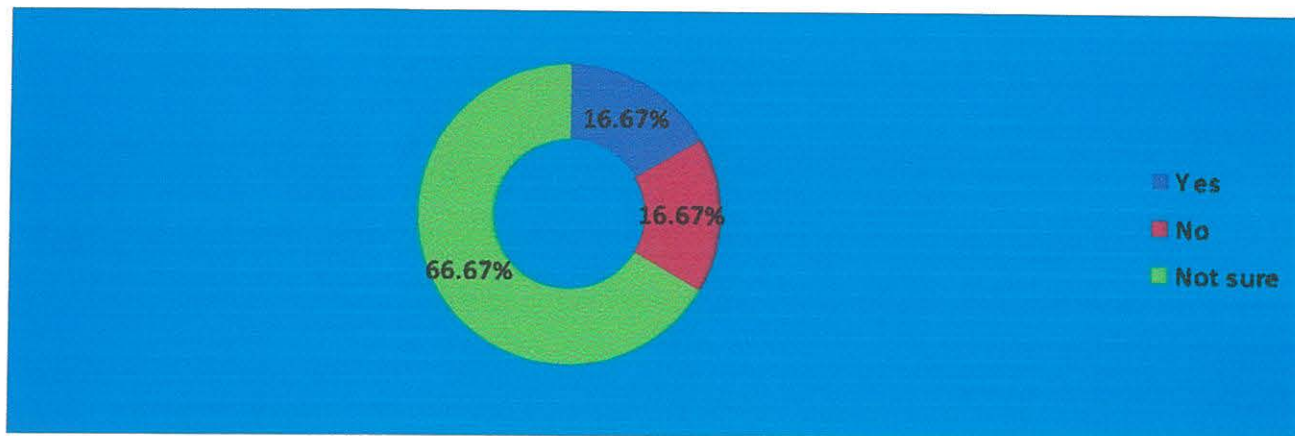
1. Are internal control process, policies and procedure satisfactory in your organization?				
	Yes	No	Not sure	Total
Frequency	3	3	14	20
Percentage	16.67	16.67	66.67	100

***Source: Primary data***

From the above we can see the responds of respondents in term of frequency and percentage as well. Out of the total population of respondents, only one respondent said the controls, policies and procedures were satisfactory, the next one disagreed and the four last respondents were not sure whether the internal control system, policies and procedures in place were consistent and satisfactory. For the clear and good visual impression the doughnut chart was used to express the details as below;

**Figure 9 shows whether internal control process, policies and procedures are satisfactory to the organization**

**Figure 9 shows whether internal control process, policies and procedures are satisfactory to the organization**



**Source: Primary data**

From the pictorial representation we can see that 66.67% of the total respondents were not sure of whether the internal control process, policies and procedures were satisfactory to the organization. They further explained that, there are some instances which indicated the possibility of fraud or embezzlement which proved that the controls in place were not satisfactory. Such indicators included complex corporate structure which did not seem to be warranted, high labor turn over of key accounting personnel, availability of major weaknesses in which the organization had not corrected and too much exemption of patients who does not possess exemption criteria.

16.67% of the total population acknowledged the internal control process, policies and procedures constituted the satisfactory measures whilst the last group of 16.67% declined that the processes, policies and procedures did not contain satisfactory measures. This last group suggested the need to improve the controls at the organization.

#### 4.9 Whether internal controls play an important role on organization cash management

**Table 11 Suggest whether internal controls play an important role in organization cash management**

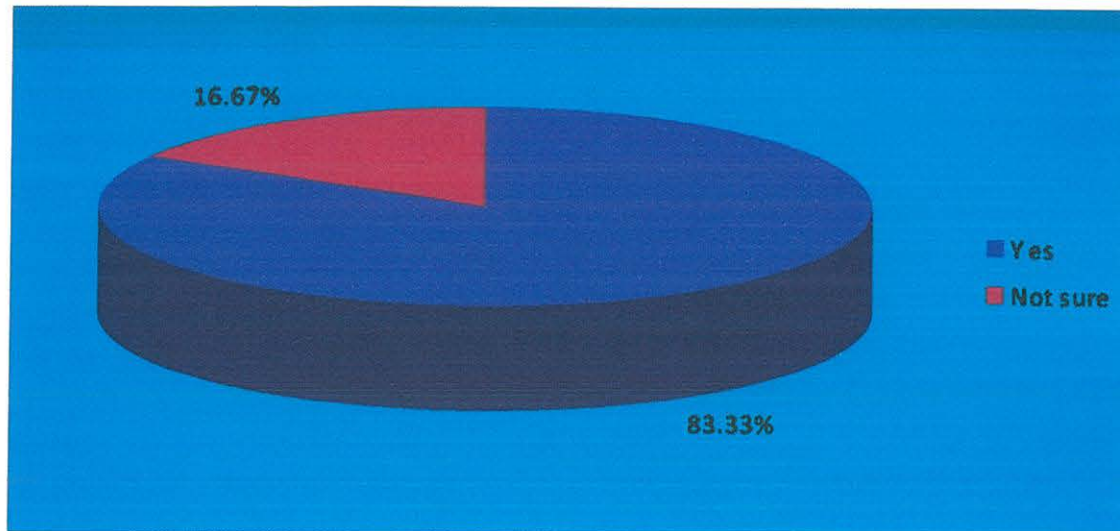
Does the internal control play some important role in safeguarding assets precisely cash?				
	Yes	No	Not sure	Total
Frequency	17	-	3	20
Percentage (%)	83.333	-	16.667	100

**Source: Primary data**

In determination of the whether internal controls played the important role in safeguarding assets specifically cash. Out of twenty (20) respondents, seventeen (17) says yes and one respondent was not sure. This may be expressed in percentage form as 83.333% of the total respondent said yes and only 16.667% were not sure while none said No. this influenced the researcher to accept that internal control was important. For good visual impression of the findings the following figure was used

**Figure 10 suggest whether internal control play an important role in organization cash management**

**Figure 10 suggest whether internal control play an important role in organization cash management**



**Source: Primary data**

The pie chart above shows that 83.33% of the total respondent when asked if internal control played some important role in safe guarding assets precisely cash, they accepted. While accepting this question they further explain that it was through the use of segregation of duties as a feature of effective and sound internal control where the process of authorization, execution, custody and recording are exercised. This means that, whoever authorized was not involved on execution the same applied to custody and records keeping.

The respondents went on explaining the role of internal control such as it ensured the business of the entity was carried on in an orderly and efficiently manner, it ensured the business was adhering to prescribed management policies, it safeguards the company assets and ensured security as far as completeness and accuracy of records were concern.

still claims of misuse and misappropriation of funds. This means the internal control still lack some technicalities of eliminating some risk.

#### **4.10 Presentation of other findings**

##### **a. Control over disbursement**

Most of the disbursements of Mulago hospital were made by cheques while minor payments were made through the petty cash fund. The payment was done after all necessary processes, authorization and approval have been performed. The hospital has three signatories who are authorized and approved to sign authorization. These include the executive director, director of finance and planning and chief accountant. However small amounts of less than fifty thousand (Ush. 100,000=) may be signed by the chief accountant and chief cashier for petty cash only. However all these and other transactions are monitored and reviewed by the director of finance and planning and Executive Director, on a monthly basis.

##### **b. Vote book**

This is the column sheet bound together in the form of the book or register is used by Mulago hospital to record all expenditure including commitments. The book contains the current unspent and uncommitted balances of each item, serial number, the date, amount and the payee of each voucher paid or forwarded to be paid.

##### **c. Control over paid documents**

The entire paid up document are stamped "paid" to show that the payment was made. All the cancelled documents are written "cancelled" and are not thrown away rather they are kept together for easy reference and trace for auditing purposes.

**d. Internal control over cash**

Mulago hospital is exercising a certain level of control over its cash; the systems available are in terms of accounting and administrative control. Accounting control includes making use of supporting documents, bank reconciliation and the use of budgetary control. While administrative control includes strictly prohibiting access of the cashier office and strong room as well.

**e. Physical control**

The physical control over organization cash of Mulago hospital comprises of safes, cash boxes and strong room and more over the custody of documents and records. Mulago hospital financial regulation suggest the all valuable documents such as the Hospital Seal, contracts agreements, motor vehicle registration cards, bond and share certificates, title deeds, etc., shall be kept in safe custody (under lock and key) by the Executive Director.

**CHAPTER FIVE**

## **DISCUSSIONS AND SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS**

### **5.0. Introduction**

This chapter presents the discussions and the findings from the previous chapters. It was on the basis of chapter four with reference to research objectives and the aid of literature review where the conclusions and recommendations were made. The objectives of this study were to evaluate the efficiency and effectiveness of a good system of internal control over organizational cash and its contribution in reduction of fraud, embezzlement and accounting errors at Mulago Hospital. The second objective was to identify the factors that might have led to inefficiency and ineffectiveness of the existing internal control system and lastly, to identify and recommend the corrective measures to be taken to ensure strong and satisfactory management of cash.

The analysis, evaluation and interpretation of the data and information found on the field were correctly performed; therefore the conclusion and recommendation given below were precisely derived from the chapter and areas mentioned above.

### **5.1. Summary**

On the basis of the analysis of chapter four, the findings suggested that internal controls and organization cash are inseparable terms. The respondents and interviewees were quite aware on the influence of internal control on organization cash management. It was viewed that, internal control plays important roles in organization cash management. The roles played by internal control in organization were identified where 83.33% of the total population concurred with the fact and mentioned roles such as it ensured business of the entity was carried on in an efficient and orderly manner, it ensured business was adhering to the prescribed management policies, it secured and safeguarded the company's assets and secure as far as completeness and accuracy of records was concern.

The implementation of internal control process, policies and procedure seemed not to be in place because on this question 66.667% of the total population was not sure if the proper control were implemented and only 33.333% acknowledged the implementation of those control process, policies and procedures. While responding to the question of other controls apart from physical and security controls, 50% of the respondent accepted, 33.33% were not sure and the rest declined. More over the respondents of 66.67% acknowledged that internal control are efficient and effective measures of controlling fraud, embezzlement and accounting errors where as 33.33% of the total population were not sure of the fact.



## **5.2 Conclusion**

Internal control systems which relied entirely on separation of duties, plans of organization, rotation and vacation may be used to control frauds; embezzlement and accounting errors i.e. it ensured proper and satisfactory cash management.

There fore it is very important to note that, internal control system plays an important role in cash management since it ensures that business ran in accordance to prescribed managerial policies, organizational resources especially cash is properly handled, there is incidental accountability for all cash received and payment is made on the basis of proper documentary authority for the benefit of the firm and such authorization is limited to few known and eligible personnel.

On the other side, the researcher identifies the factors which lead to inefficiency and ineffectiveness of used internal control system. Some of these factors are inability of Mulago hospital to implement satisfactory control such as proper authorization of funds, lack of active internal audit unit in big organization like Mulago hospital and failure to separate the responsibility for related transaction.

On the above basis the researcher recommends the corrective measures, steps and procedures to be adopted to eliminate or minimizing the chances of consequences which are likely to happen as the result of Mulago hospital's failure to exercise the most appropriate and satisfactory measures of internal control on organizational cash management.

The information obtained through observation of voucher and other documents, questionnaires, interviews and focus group discussion shows control procedures laid down by the management are adhered to a certain extent, however some weaknesses distort the process and procedures but not to the extent of disqualifying the control in place.

### 5.3 Recommendation

On the basis of this research work performed, the researcher recommended the following with the aim of improving the internal control system of Mulago hospital and hence ensured that the controls practiced are appropriate and satisfactory:-

The organization should increase the ability of implementing the internal control process, policies and procedure on hand. Mulago hospital had almost all vital internal control policies, the only problem existing is its inability to act and operate within the set principles. Other issues Mulago should consider include;

- 1) **Organizational plan to establish authority and responsibility for every function**, an organization plan should indicate clearly the department or person responsible for such function as purchasing, receiving incoming shipments, maintaining accounting records, approving financial matters and preparing the payroll. One person should be clearly responsible for each function otherwise it would be difficult if not impossible to determine who was at fault.
- 2) **Control of transaction** if the management was to direct the activities of the business according to plan, every transaction should go through four steps: authorization, approval, execution and recording. Example when the top management authorizes a transaction, the departmental manager may approve and payment office execute while accounting office records it on its books.

- 3) **Separation of accounting and custody of asset**, an employee who had custody of an asset or an access to an asset lets say cash should not maintain the accounting records of that asset, this aims at reducing temptation to that particular employee. This may also be sorted by increasing the number of employees so as to facilitate the separation of duties.
- 4) **Prevention of fraud**, if one employee is permitted to handle all aspects of a transaction the danger of fraud is increased. Studies of fraud cases suggested that many individuals may be tempted into dishonest act if given complete control of company assets (**source: External payment in arrear Account scandal of BOT as audited by Ernest & Young in 2008**). So Mulago hospital should consider this fact and minimize the possibility as quick as possible to be free from this risk.
- 5) **Further more**, Mulago hospital should separate responsibility for related transaction, adopting job rotation on sensitive matters of cash or near cash assets, adopting serially numbered documents, undertaking financial forecasting and practice internal auditing to ensure all transactions are passed under a clear channel through prescribed accounting policies of Mulago hospital and GAAP as well.

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## **INSTRUMENTS**

### **(A) QUESTIONNAIRES**

Dear respondent(s), I am a bonafide student of Kampala International University pursuing a bachelor degree of business administration. I am conducting the research on the role of internal control on organizational cash management.

This research was purely for academic purpose, all the information given was treated in utmost good faith with high confidentiality and privacy and the consent and anonymity of the respondents were observed.

### **BACKGROUND INFORMATION**

Please tick the most appropriate answer by putting the symbol “√”

1. Age in years:-

(a) 18 – 24 ☐

(b) 25 – 30 ☐

(c) 31 – 36 ☐

(d) 37 – 42 ☐

(e) Above 43 ☐

4 Sex

(a) Male ☐

(b) female ☐

5 Marital status

(a) Single ☐

(b) Married ☐

(c) Divorced ☐

6 Level of Education

(a) Diploma ☐

(b) Professional course (E.g. CPA (T) or ACCA) ☐

(c) Bachelor degree in accounting field ☐

**QUESTIONS:**

(i) Does internal control have roles it plays on organizational cash management?

Yes..... No..... Not sure.....

If yes explain below how and if no give reason why you think so .....

.....  
.....

(ii) Is internal control relevant on organization cash management?

- (a) Relevant ☐
- (b) Very relevant ☐
- (c) Irrelevant (useless) ☐
- (d) Very irrelevant (very useless) ☐

(iii) Does the internal control play some important role in safeguarding assets precisely cash?

Yes ..... No..... Not sure.....

If yes, what are the major roles which are played by internal control?

.....  
.....  
.....

(iv) Are the proper internal control processes, policies and procedures implemented in your organization? Yes..... No..... Not sure.....

If yes, please comment on its implementation towards safeguarding organizational cash

.....  
.....  
.....

(v) Apart from physical control and security on cash do you have any system control in authorization of cash and other disbursement?

Yes..... No..... Not sure .....



Please explain on the basis of your answer: .....

.....

.....

(vi) Do you think that, internal control is efficient and effective in  
controlling fraud, embezzlement and accounting errors?

Yes..... No..... Not sure.....

If yes explain how if no give reason(s).

.....

.....

.....

***Thank you for your Cooperation and support in completing  
this questionnaire.***

## **(B) INTERVIEW GUIDE**

- 1 In your own view briefly explain the meaning of Internal control?  
.....  
.....  
.....
- 2 Is there any relationship between internal control and organizational cash management?  
(a) Yes..... (b) No..... (c) Not sure.....  
If yes briefly describe their relationship, and if No, give reasons or Comments.  
.....  
.....  
.....
- 3 What are the key factors that might lead to inefficiency and ineffectiveness of internal control system?  
.....  
.....  
.....
- 4 Are internal control process, policies and procedure satisfactory in your organization?  
(a) Yes..... (b) No..... (c) Not sure .....
- 5 If no, suggest some basic and important process, policies and procedures .....

.....

.....

**THANK YOU**  
**TIME SCHEDULE**

<b>TIME FRAME FOR RESEARCH PROJECT</b>	
<b>ACTIVITY</b>	<b>DURATION IN DAYS</b>
Proposal writing	14
Data collection	14
Data editing and coding	8
Data analysis and presentation	10
Report writing and Compiling	14
<b>TOTAL TIME PERIOD</b>	<b>60</b>

### ESTIMATED BUDGET

<b>THE RESEARCHER'S BUDGET IN UGANDAN SHILLINGS</b>		
<b>ITEM</b>	<b>AMOUNT PER DAY</b>	<b>AMOUNT IN TOTAL</b>
Transport	2000 @ For 30 days	60,000.00
Meals	2500 @ For 30 days	75,000.00
Stationery		30,000.00
Internet café		20,000.00
Typing, printing & binding		50,000.00
<b>TOTAL</b>		<b>235,000.00</b>